DRAFT BUDGET OF

GREATER GIYANI MUNICIPALITY

2016/17 TO 2018/19
MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

Adopted by council on 29 March 2016

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Part 1 – Draft Budget

1.1 Mayor's Report

I have the honour to present to this house the 2016/17 IDP/ budget.

Here under are the projects for 2016/17:

- Electrification of villages – R12,400,000
- Section E Sport Centre – R1 000,000
- Nkomo B Upgrading from gravel to tarr - R10,000,000
- Mbaula upgrading from gravel to tarr – R1,000,000
- Homu 14b to 14a upgrading from gravel to tarr R4,000,000
- Makosha upgrading from gravel to tarr R4,000,000
- Giyani section F streets phase 3 – R5, 500,000
- Mageva sports centre R6,500, 000
- Bode paving of internal streets R3,000, 000
- Culvert bridges to cementries R1,500, 000
- Thomo Community Hall R7,936,062
- Waste disposal site development R11, 000,000
- Nkomo A upgrading from gravel to tarr R1,500,000
- Civic Centre building phase two – R15,045,400
- Upgrading civic centre parking lot – R1,000,000
- Formalisation of new settlement Xikukwane village – R600,000
- Formalisation of new settlement Makosha village – R700,000
- Town expansion Ngove village R300,000
- Roads and stormwater master plan R1,000,000
- Refurbishment of arts and culture centre R1,000 , 000
- Landscaping of CBD and Giyani entrance R500,000
- Public transport shelters R1,000, 000
- Ndhambi taxi rank R 1,000,000
- Development of a disaster management plan – R500,000.
- Rehabilitation of streets in all sections R500,000
- Upgrading of road D3187 from gravel to tarr R1,000,000
- Refurbishment of Giyani stadium,mavhuza,shivulani,section A tennis court R300,000
- Upgrading of khensani access R300,000
- Refurbishment of sporting facilities mzilela,gawula,muyexe & shawela R500,000
- Giyani section E sports precinct R300,000
- Upgrading of Giyani golf course R300,000
- Upgrading of Giyani traffic lights & R81 lightning R1,000,000

CONCLUSION

With these allocations we aim to bring tangible changes to the lives of our people. The State President, through the State of the Nation Address, has explicitly given marching orders with regard to what government need to do for the betterment of our people. Our long standing objectives are reducing poverty, creating jobs and ensuring a better life for all.

I am mindful that poverty still afflicts and chains the majority of our rural population. I am mindful that serious service backlogs and lack of adequate infrastructure network are still issues to be addressed aggressively throughout our municipality.

It is now my honour to formally table the **Draft 2016/2017 IDP, and MTREF BUDGET and TARRIF STRUCTURE FOR 2016/17 FINANCIAL YEAR AND THE TWO OUTER YEARS 2017/18/2018/19** for **Adoption** by Council.

1.2 Council Resolutions

On 29 March 2016 the Council of Greater Giyani Local Municipality met in the Giyani Old Legislative Assembly Hall to consider the draft budget of the municipality for the financial year 2016/17. The Council approved and adopted the following resolutions:

1. The Council of Greater Giyani Local Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:

    1.1. The annual budget of the municipality for the financial year 2016/17 and the multi-year and single-year capital appropriations as set out in the following tables:
    1.1.1. Budgeted Financial Performance (revenue and expenditure by standard classification) as contained in Table 18 ;
    1.1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained in Table 19 ;
    1.1.3. Budgeted Financial Performance (revenue by source and expenditure by type) as contained in Table 21 ; and
    1.1.4. Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source as contained in Table 22.

    1.2. The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables:
    1.2.1. Budgeted Financial Position as contained in Table 23 ;
    1.2.2. Budgeted Cash Flows as contained in Table 24 ;
    1.2.3. Cash backed reserves and accumulated surplus reconciliation as contained in Table 25 ;
    1.2.4. Asset management as contained in Table 26 ; and
    1.2.5. Basic service delivery measurement as contained in Table 27.

2. The Council of Greater Giyani Local Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2016:
    2.1. the tariff structure of municipal services as set out in Annexure A.

3. To give proper effect to the municipality's annual budget, the Council of Greater Giyani Local Municipality approves:
    3.1. That cash backing is implemented through the utilisation of a portion of the revenue generated from property rates to ensure that all capital reserves and provisions, unspent long-term loans and unspent conditional grants are cash backed as required in terms of the municipality's funding and reserves policy as prescribed by section 8 of the Municipal Budget and Reporting Regulations.

SIGNED FOR AND ON BEHALF OF
THE GREATER GIYANI MUNICIPAL COUNCIL

SPEAKER

29/03/2016

______________________________ ______________________

CLLR S S MATHEBULA **DATE**

MAYOR

29/03/2016

______________________________ ______________________

CLLR M P HLUNGWANI **DATE**

COUNCILLOR FOR FINANCE

29/03/2016

______________________________ ______________________

CLLR N M RIKHOTSO **DATE**

1.3 Executive Summary

National Treasury's MFMA Circular No. 78 and 79 were used to guide the compilation of the 2016/17 MTREF.

The main challenges experienced during the compilation of the 2016/17 MTREF can be summarised as follows:

- The ongoing difficulties in the national and local economy;
- Aging and poorly maintained water, roads infrastructure;
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies;
- Affordability of capital projects – original allocations had to be reduced and the operational expenditure associated with prior year's capital investments needed to be factored into the budget as part of the 2016/17 MTREF process; and

The following budget principles and guidelines directly informed the compilation of the 2016/17 MTREF:

- The 2015/16 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2015/16 annual budget;
- Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;
- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;

In view of the aforementioned, the following table is a consolidated overview of the proposed 2016/17 Medium-term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the 2016/17 MTREF

R thousand	Adjustments Budget 2015/16	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
Total Operating Revenue	298,754	304,535	303,107	316,243
Total Operating Expenditure	279,691	288,195	307,322	322,844
(Surplus)/Deficit for the year	19,063	16,339	-4,215	-6,601
Total Capital Expenditure	139,236	111,241	198,946	125,845

Total operating revenue has grown by 1.94 per cent or R5, 781 million for the 2016/17 financial year when compared to the 2015/16 Adjustments Budget. For the two outer years, operational revenue will decrease by -0.47 and increase by 4.33 per cent respectively.

Total operating expenditure for the 2016/17 financial year has been appropriated at R288.2 million and translates into a budgeted surplus of R16,3 million. When compared to the 2015/16 Adjustments Budget, operational expenditure has grown by 3,04per cent in the 2016/17 budget and by 6.64 and 5.05 per cent for each of the respective outer years of the MTREF. The operating surplus for the two outer years steadily decreases to -R4,2 million and then stabilise at –R6,6 million. These surpluses will be used to fund capital expenditure and to further ensure cash backing of reserves and funds.

The capital budget of R111.2 million for 2016/17 is 20.11 per cent less when compared to the 2015/16 Adjustment Budget. The capital programme increases to R198,9 million in the 2017/18 financial year and then evens out in 2018/19 to R125,8 million. A substantial portion of the capital budget will be funded from the local government equitable share over MTREF. The balance will be funded from internally generated funds.

1.3.1. Operating Revenue Framework

For Greater Giyani Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality’s revenue strategy is built around the following key components:

- National Treasury’s guidelines and macroeconomic policy;
- Growth in the Municipality and continued economic development;
- Efficient revenue management, which aims to ensure a 95 per cent annual collection rate for property rates and other key service charges;
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;

- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);

The following table is a summary of the 2016/17 MTREF (classified by main revenue source):

Table 2 Summary of revenue classified by main revenue source

LIM331 Greater Giyani - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
Revenue By Source											
Property rates	2	28 318	27 156	28 668	35 000	31 000	31 000	31 000	34 000	35 000	35 000
Property rates - penalties & collection charges											
Service charges - electricity revenue	2	–	–	–	–	–	–	–	–	–	–
Service charges - water revenue	2	–	–	–	–	–	–	–	–	–	–
Service charges - sanitation revenue	2	–	–	–	–	–	–	–	–	–	–
Service charges - refuse revenue	2	3 945	3 831	3 953	3 900	4 100	4 100	4 100	4 200	4 300	4 300
Service charges - other											
Rental of facilities and equipment		774	839	840	826	773	773	773	799	814	821
Interest earned - external investments		5 150	5 784	14 894	6 600	11 000	11 000	11 000	11 500	11 800	11 800
Interest earned - outstanding debtors		7 561	7 293		5 000	5 000	5 000	5 000	5 000	5 000	5 000
Dividends received											
Fines		60	71	91	59	46	46	46	47	48	48
Licences and permits		4 098	3 683	4 499	5 300	7 100	7 100	7 100	7 200	7 300	7 300
Agency services		398	325	245	300	300	300	300	300	300	300
Transfers recognised - operational		136 021	151 385	175 399	226 517	226 517	226 517	226 517	222 636	237 002	250 106
Other revenue	2	1 132	1 222	1 547	1 620	12 918	12 918	12 918	18 853	1 542	1 568
Gains on disposal of PPE				427							
Total Revenue (excluding capital transfers and contributions)		187 458	201 588	230 564	285 122	298 754	298 754	298 754	304 535	303 107	316 243

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

Revenue generated from rates forms a significant percentage of the revenue basket for the Municipality. Rates and service charge revenues comprise more than two thirds of the total revenue mix. In the 2015/16 financial year, revenue from rates and services charges totalled R35,1 million. This increases to R38,2 million, R39,3 million and R39,3 million in the respective financial years of the MTREF.

Operating grants and transfers totals R222, 6 million in the 2016/17 financial year and steadily increases to R250,1 million by 2018/19.

Table 3 Operating Transfers and Grant Receipts

LIM331 Greater Giyani - Supporting Table SA18 Transfers and grant receipts

Description	Ref	2012/13	2013/14	2014/15	Current Year 2015/16			2016/17 Medium Term Revenue & Expenditure Framework		
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
RECEIPTS:	1, 2									
Operating Transfers and Grants										
National Government:		135 765	151 097	175 561	226 157	226 157	226 157	222 276	236 632	249 726
Local Government Equitable Share		132 615	147 657	171 547	221 971	221 971	221 971	219 308	234 487	247 581
Finance Management		1 350	1 550	1 600	1 675	1 675	1 675	1 810	2 145	2 145
Municipal Systems Improvement		800	890	934	930	930	930	–	–	–
EPWP Incentive		1 000	1 000	1 480	1 581	1 581	1 581	1 158	–	–
Other transfers/grants [insert description]										
Provincial Government:		–	–	–	–	–	–	–	–	–
Other transfers/grants [insert description]										
District Municipality:		–	–	–	–	–	–	–	–	–
[insert description]										
Other grant providers:		256	288	377	360	360	360	360	370	380
LGSETA		88	120	377	360	360	360	360	370	380
LEDET & SUNDRY GRANTS		168	168							
Total Operating Transfers and Grants	5	136 021	151 385	175 938	226 517	226 517	226 517	222 636	237 002	250 106

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the Municipality.

National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges as low as possible. Municipalities must justify in their budget documentation all increases in excess of the 6.6 per cent upper boundary of the South African Reserve Bank's inflation target. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payment.

It must also be appreciated that the consumer price index, as measured by CPI, is not a good measure of the cost increases of goods and services relevant to municipalities. The basket of goods and services utilised for the calculation of the CPI consist of items such as food, petrol

and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of electricity and water, petrol, diesel, chemicals, cement etc. The current challenge facing the Municipality is managing the gap between cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions. Within this framework the Municipality has undertaken the tariff setting process relating to service charges as follows.

1.3.2. Property Rates

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process.

National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural properties relative to residential properties to be 0, 25:1. The implementation of these regulations was done in the previous budget process and the Property Rates Policy of the Municipality has been amended accordingly.

Table 4 Comparison of proposed rates to levied for the 2016/17 financial year

Category	Current Tariff (1 July 2015)	Proposed tariff (from 1 July 2016)
	c	C
Residential properties	0,005	0,006
State owned properties	0,035	0,037
Business & Commercial	0,021	0,022
Vacant land	0,043	0,022

The following table compares current and proposed amounts payable from 1 July 2016:

Table 5 Comparison between current waste removal fees and increases

Description	Current tariffs 2015/16	Proposed tariffs 2016/17
Refuse Removal daily collection	R2 232	R2 340
Refuse removal Businesses	R1 507 per month	R1 580 per month
Refuse removal government	R1 507 per month	R1 580 per month
Refuse removal residential	R28,26 per month	R30 per month
Refuse removal indigent	Free	Free

1.3.3. Operating Expenditure Framework

The Municipality expenditure framework for the 2016/17 budget and MTREF is informed by the following:

- The asset renewal strategy and the repairs and maintenance plan;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and

The following table is a high level summary of the 2016/17 budget and MTREF (classified per main type of operating expenditure):

Table 6 Summary of operating expenditure by standard classification item

Expenditure By Type											
Employee related costs	2	72 920	89 400	94 202	107 908	106 789	106 789	106 789	123 914	132 344	141 341
Remuneration of councillors		16 650	16 980	18 573	17 447	19 068	19 068	19 068	19 524	20 852	22 270
Debt impairment	3	28 766	28 450	(45 410)	20 000	20 000	20 000	20 000	20 000	20 000	20 000
Depreciation & asset impairment	2	20 376	22 503	14 406	35 000	30 000	30 000	30 000	30 000	35 000	35 000
Finance charges		278	514	430	500	500	500	500	550	600	642
Bulk purchases	2	–	–	–	–	–	–	–	–	–	–
Other materials	8	4 174	14 690	7 889	9 135	7 065	7 065	7 065	7 660	7 925	9 765
Contracted services		308	427	214	17 150	22 748	22 748	22 748	12 480	13 560	14 620
Transfers and grants		–	–	–	–	–	–	–	–	–	–
Other expenditure	4, 5	36 923	46 943	66 568	65 784	73 520	73 520	73 520	74 067	77 041	79 206
Loss on disposal of PPE											
Total Expenditure		180 394	219 907	156 872	272 924	279 691	279 691	279 691	288 195	307 322	322 844

The budgeted allocation for employee related costs for the 2016/17 financial year totals R123,9 million, which equals 43 per cent of the total operating expenditure. Based on the three year collective SALGBC agreement, salary increases have been factored into this budget at a percentage increase of 7 per cent for the 2016/17 financial year. An annual decrease of 6,8 per cent has been included in the two outer years of the MTREF.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the Municipality budget.

The provision of debt impairment was determined. For the 2016/17 financial year this amount equates to R20 million and remain the same by 2018/19. While this expenditure is considered to be a non-cash flow item, it informed the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Budget appropriations in this regard total R30 million for the 2016/17 financial and equates to 10.41 per cent of the total operating expenditure.

Finance charges consist primarily of the bank charges. Finance charges make up 0.19 per cent (R550 thousand) of operating expenditure.

Other materials comprise of amongst others the materials for maintenance. For 2016/17 the appropriation against this group of expenditure has grown by 2,66per cent (R7,6 million) and continues to grow at 2.58 and 3.02 per cent for the two outer years .

Other expenditure comprises of various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved. For 2016/17 this expenditure increases by 0,74 per cent.

1.3.4. Priority given to repairs and maintenance

Aligned to the priority being given to preserving and maintaining the Municipality current infrastructure, the 2016/17 budget and MTREF provide for extensive growth in the area of asset maintenance, as informed by the asset renewal strategy and repairs and maintenance plan of the Municipality. In terms of the Municipal Budget and Reporting Regulations, operational repairs and maintenance is not considered a direct expenditure driver but an outcome of certain other expenditures, such as remuneration, purchases of materials and contracted services. Considering these cost drivers, the following table is a consolidation of all the expenditures associated with repairs and maintenance:

Table 7 Operational repairs and maintenance

Repairs and Maintenance by Expenditure Item	8										
Employee related costs											
Other materials		4 174	14 690	7 889	9 135	7 065	7 065	7 065	7 660	7 925	9 765
Contracted Services					15 000	20 598	20 598	20 598	10 000	11 000	12 000
Other Expenditure											
Total Repairs and Maintenance Expenditure	9	4 174	14 690	7 889	24 135	27 663	27 663	27 663	17 660	18 925	21 765

During the compilation of the 2016/17 MTREF operational repairs and maintenance was identified as a strategic imperative owing to the aging of the Municipality infrastructure and historic deferred maintenance. The total allocation for 2016/17 equates to R17.6 million a decrease of 36, 16 per cent in relation to the Adjustment Budget and continues to grow to 21, 7m by 2018/19. In relation to the total operating expenditure, repairs and maintenance comprises of 6.12, 6.15 and 6.74 per cent for the respective financial years of the MTREF.

1.3.5. Free Basic Services: Basic Social Services Package

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to

register in terms of the Municipality Indigent Policy. The target is to register 80 000 or more indigent households during the 2016/17 financial year, a process reviewed annually.

The cost of the social package of the registered indigent households is largely financed by national government through the local government equitable share received in terms of the annual Division of Revenue Act.

1.3.6. Capital expenditure

The following table provides a breakdown of budgeted capital expenditure by vote:

Table 8 2014/15 Medium-term capital budget per vote

Capital Expenditure - Standard											
Governance and administration		3 295	14 384	9 518	21 650	35 968	35 968	35 968	26 105	16 160	11 460
Executive and council				2	150	80	80	80	100	100	100
Budget and treasury office											
Corporate services		3 295	14 384	9 516	21 500	35 888	35 888	35 888	26 005	16 060	11 360
Community and public safety		4 590	5 625	19 144	46 277	44 115	44 115	44 115	32 036	35 522	18 000
Community and social services		2 961	3 094	9 361	33 947	27 320	27 320	27 320	24 036	32 522	15 000
Sport and recreation		1 629	2 531	9 783	12 330	16 795	16 795	16 795	8 000	3 000	3 000
Public safety											
Housing											
Health											
Economic and environmental services		32 868	50 817	59 823	48 300	40 522	40 522	40 522	40 700	122 965	80 385
Planning and development		7 281	4 543	778	3 000	1 000	1 000	1 000	3 600	–	–
Road transport		25 588	46 274	59 045	45 300	39 522	39 522	39 522	37 100	122 965	80 385
Environmental protection											
Trading services		–	–	–	19 631	18 631	18 631	18 631	12 400	24 300	16 000
Electricity					19 631	18 631	18 631	18 631	12 400	24 300	16 000
Water											
Waste water management											
Waste management											
Other											
Total Capital Expenditure - Standard	3	40 753	70 826	88 485	135 858	139 236	139 236	139 236	111 241	198 946	125 845

Transport and roads receives the highest allocation of R37 million in 2016/17 which equates to 33.35 per cent of the total capital budget. Electricity infrastructure is at 11.14 per cent.

Further detail relating to asset classes and proposed capital expenditure is contained in Table A9 (Asset Management) . In addition to the MBRR Table A9, MBRR Tables SA34a, b, c provides a detailed breakdown of the capital programme relating to new asset construction, capital asset renewal as well as operational repairs and maintenance by asset class

1.4. Draft Budget Tables

The following pages present the ten main budget tables as required in terms of section 8 of the Municipal Budget and Reporting Regulations. These tables set out the municipality's 2016/17 budget and MTREF as approved by the Council. Each table is accompanied by explanatory notes on the following page.

Explanatory notes to MBRR Table A1 - Budget Summary

1. Table A1 is a budget summary and provides a concise overview of the Municipality budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance).
2. The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs.
3. Financial management reforms emphasises the importance of the municipal budget being funded. This requires the simultaneous assessment of the Financial Performance, Financial Position and Cash Flow Budgets, along with the Capital Budget. The Budget Summary provides the key information in this regard:
    a. The operating surplus/deficit (after Total Expenditure) is positive over the MTREF
    b. Capital expenditure is balanced by capital funding sources, of which
        i. Transfers recognised is reflected on the Financial Performance Budget;
        ii. Borrowing is incorporated in the net cash from financing on the Cash Flow Budget
        iii. Internally generated funds are financed from a combination of the current operating surplus and accumulated cash-backed surpluses from previous years. The amount is incorporated in the Net cash from investing on the Cash Flow Budget. The fact that the municipality's cash flow remains positive, and is improving indicates that the necessary cash resources are available to fund the Capital Budget.
4. The Cash backing/surplus reconciliation shows that in previous financial years the municipality was not paying much attention to managing this aspect of its finances, and consequently many of its obligations are not cash-backed. This place the municipality in a very vulnerable financial position, as the recent slow-down in revenue collections highlighted. Consequently Council has taken a deliberate decision to ensure adequate cash-backing for all material obligations in accordance with the recently adopted Funding and Reserves Policy. This cannot be achieved in one financial year. But over the MTREF there is progressive improvement in the level of cash-backing of obligations. It is anticipated that the goal of having all obligations cash-back will be achieved by 2016/17, when a small surplus is reflected.
5. Even though the Council is placing great emphasis on securing the financial sustainability of the municipality, this is not being done at the expense of services to the poor. The section of Free Services shows that the amount spent on Free Basic Services and the revenue cost of free services provided by the municipality continues to increase. In addition, the municipality continues to make progress in addressing service delivery backlogs.

Explanatory notes to MBRR Table A2 - Budgeted Financial Performance (revenue and expenditure by standard classification)

1. Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. The modified GFS standard classification divides the municipal services into 15 functional areas. Municipal revenue, operating expenditure and capital expenditure are then classified in terms if each of these functional areas which enables the National Treasury to compile 'whole of government' reports.
2. Note the Total Revenue on this table includes capital revenues (Transfers recognized – capital) and so does not balance to the operating revenue shown on Table A4.
3. Note that as a general principle the revenues for the Trading Services should exceed their expenditures. The table highlights that this is the case for Electricity, Water and Waste water functions, but not the Waste management function.
4. Functions that show a deficit between revenue and expenditure are being financed from rates revenues and other revenue sources reflected under the Budget and treasury Office.

Explanatory notes to MBRR Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organisational structure of the Municipality. This means it is possible to present the operating surplus or deficit of a vote.

Explanatory notes to Table A4 - Budgeted Financial Performance (revenue and expenditure)

1. Total revenue is R369, 4 million in 2016/17 and escalates to R386 million by 2018/19. This represents a decrease of 5.01 per cent for the 2016/17 financial year and increase by 3, 11 per cent for the 2018/19 financial year.
2. Revenue to be generated from property rates is R34 million in the 2016/17 financial year and increases to R35 million by 2018/19 which represents 11,16 per cent of the operating revenue base of the municipality and therefore remains a significant funding source for the municipality.
3. Services charges relating to refuse removal constitutes the biggest component of the revenue basket of the municipality totalling R4.2 million for the 2016/17 financial year and increasing to R4.3 million by 2018/19. For the 2016/17 financial year services charges amount to 1,37 per cent of the total revenue base and grows by 1,35 per cent per annum over the medium-term.
4. Transfers recognized – operating includes the local government equitable share and other operating grants from national and provincial government. It decreases by 1.71 per cent for 2016/17 financial year and increases by 6.45 per cent and 5.52 per cent for the two outer years.

Explanatory notes to Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source

1. Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote (multi-year and single-year appropriations); capital expenditure by standard classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.

2. The MFMA provides that a municipality may approve multi-year or single-year capital budget appropriations. In relation to multi-year appropriations, for 2016/17 has been allocated of the total R111, 2 million capital budgets. This allocation escalates to R198, 9million in 2017/18 and then flattens out to R125, 8 million in 2018/19.

3. Single-year capital expenditure has been appropriated at R14,5 million for the 2016/17 financial year and remains relatively constant over the MTREF at levels of R13.6 million and R11.4 million respectively for the two outer years.

4. Unlike multi-year capital appropriations, single-year appropriations relate to expenditure that will be incurred in the specific budget year such as the procurement of vehicles and specialized tools and equipment. The budget appropriations for the two outer years are indicative allocations based on the departmental business plans as informed by the IDP and will be reviewed on an annual basis to assess the relevance of the expenditure in relation to the strategic objectives and service delivery imperatives of the municipality. For the purpose of funding assessment of the MTREF, these appropriations have been included but no commitments will be incurred against single-year appropriations for the two outer-years.

5. The capital programme is funded from capital and provincial grants and transfers, public contributions and donations, borrowing and internally generated funds from current year surpluses. For 2016/17, capital transfers totals R64.9 million and escalates to R70.6 million by 2018/19.

Explanatory notes to Table A6 - Budgeted Financial Position

1. Table A6 is consistent with international standards of good financial management practice, and improves understandability for councilors and management of the impact of the budget on the statement of financial position (balance sheet).

2. This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version which presents Assets less Liabilities as "accounting" Community Wealth. The order of items within each group illustrates items in order of liquidity; i.e. assets readily converted to cash, or liabilities immediately required to be met from cash, appear first.

3. Table A6 is supported by an extensive table of notes providing a detailed analysis of the major components of a number of items, including:

   - Call investments deposits;
   - Consumer debtors;
   - Property, plant and equipment;
   - Trade and other payables;
   - Provisions non-current;
   - Changes in net assets; and
   - Reserves

4. The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets of the municipality belong to the community.

5. Any movement on the Budgeted Financial Performance or the Capital Budget will inevitably impact on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalents at year end. Similarly, the collection rate assumption should inform the budget appropriation for debt impairment which in turn would impact on the provision for bad debt. These budget and planning assumptions form a critical link in determining the applicability and relevance of the budget as well as the determination of ratios and financial indicators. In addition the funding compliance assessment is informed directly by forecasting the statement of financial position.

Explanatory notes to Table A7 - Budgeted Cash Flow Statement

1. The budgeted cash flow statement is the first measurement in determining if the budget is funded.
2. It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.
3. The approved 2016/17 MTREF provide for a further net decrease in cash of R280 thousand for the 2016/17 financial year resulting in an overall projected position cash position of R29,7 million at year end.
4. As part of the 2015/16 mid-year review and Adjustments Budget this unsustainable cash position had to be addressed as a matter of urgency and various interventions were implemented such as the reduction of expenditure allocations and rationalization of spending priorities.
5. The 2015/16 MTREF has been informed by the planning principle of ensuring adequate cash reserves over the medium-term.
6. Cash and cash equivalents totals R29.7 million as at the end of the 2016/17 financial year.

Explanatory notes to Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation

1. The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – Funding a Municipal Budget.
2. In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.
3. The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality's budget must be "funded".
4. Non-compliance with section 18 of the MFMA is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded.
5. As part of the budgeting and planning guidelines that informed the compilation of the 2016/17 MTREF the end objective of the medium-term framework was to ensure the budget is funded aligned to section 18 of the MFMA.

Explanatory notes to Table A9 - Asset Management

1. Table A9 provides an overview of municipal capital allocations to building new assets and the renewal of existing assets, as well as spending on repairs and maintenance by asset class.
2. National Treasury has recommended that municipalities should allocate at least 40 per cent of their capital budget to the renewal of existing assets, and allocations to repairs and maintenance should be 8 per cent of PPE. The municipality meets both these recommendations.

Explanatory notes to Table A10 - Basic Service Delivery Measurement

1. Table A10 provides an overview of service delivery levels, including backlogs (below minimum service level), for each of the main services.
2. The municipality continues to make good progress with the eradication of backlogs:
   a. Water services – These households are largely found in 'reception areas' and will need to be moved to formal areas so that they can receive services.
   b. Sanitation services – The number of households with no toilet provision will be reduced to 20 046 households in 2016/17.
   c. Electricity services – Once the most pressing network issues have been addressed, the electrification programme will be prioritised; with 69 000 households budgeted to be electrified in 2016/17.
   d. Refuse services – backlog will be reduced by 60 456 households in 2016/17 financial year. However it should be noted that this function is being investigated with a view to realising greater efficiencies, which is likely to translate into a more rapid process to address backlogs.

Part 2 – Supporting Documentation

2.1. Overview of the draft budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Municipal Manager and senior officials of the municipality meeting under the chairpersonship of the MMC for Finance.

The primary aim of the Budget Steering Committee is to ensure:

- that the process followed to compile the budget complies with legislation and good budget practices;
- that there is proper alignment between the policy and service delivery priorities set out in the Municipality IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
- that the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
- that the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

2.1.1. Budget Process Overview

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2015) a time schedule that sets out the process to revise the IDP and prepare the budget.

The Mayor tabled in Council the required the IDP and budget time schedule on 29 July 2015. Key dates applicable to the process were:

August 2015

- Review of previous year's budget and IDP process and completion of budget evaluation checklist.
- Develop a timetable of key budget and IDP deadlines for the 2016/2017 budget process.
- Approval of SDBIP 28 days after approval of budget.
- Finalization and signing of performance agreements (by senior managers).

October 2015

- Review past performance (financial & non-financial): Analysis of current reality including basic facts and figures.
- Review long term plans, setting out long term performance plans in terms of outcomes, service level requirements, demographics, backlogs etc.

November 2015

- Initial tariff and revenue modelling.
- Integrate macro-economic indicators using Medium Term Budget Policy Statement (MTBPS) from NT.
- Projects prioritization with the communities: Input and feedback flow.

January 2016

- Draft HR plan including personnel budgets.
- Draft IDP amendments.
- Draft operating and capital plans per function or department, detailing service levels, initiatives, financial forecasts and non-financial indicators
- Detailed line item budget in line with operating and capital plans per function or department.
- Prepare and submit to NT, PT and DLG&H the annual reports for 2014/15 and all prior years.
- Assess municipal performance for the first 6 months of 2015/16 and submit mid-year performance assessment to Council. Include oversight report with any corrective measures proposed.
- Table the 2015/16 adjustment budget.

March 2016

- Table Draft Budget Document: Information from operational plans and line item budgets are combined to form the draft annual budget document
- Update and develop sector/ integrated plans/ programmes.

April 2016

- Public consultations and budget debates (commencement): Make budget available to and considers views of the public, NT, PT and other stakeholders.

May 2016

- Approval of IDP and budget together with revised tariffs, budget related policies, SDBIP and IDP /Budget process plan for 2016/17.
- Submission of IDP and budget to NP, PT, DLG&H as well as other stakeholders.

The draft 2016/17 MTREF budget and IDP were tabled before council on 29 March 2016.

There were no deviations from the key dates set out in the Budget Time Schedule tabled in Council.

2.1.2. IDP and Service Delivery and Budget Implementation Plan

The Municipality IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan. The Process Plan applicable to the fourth revision cycle included the following key IDP processes and deliverables:

- Registration of community needs;
- Compilation of departmental business plans including key performance indicators and targets;
- Financial planning and budgeting process;
- Public participation process;
- Compilation of the SDBIP, and
- The review of the performance management and monitoring processes.

The IDP has been taken into a business and financial planning process leading up to the 2016/17 MTREF, based on the approved 2015/16 MTREF, Mid-year Review and adjustments budget. The business planning process has subsequently been refined in the light of current economic circumstances and the resulting revenue projections.

With the compilation of the 2015/16 MTREF, each department/function had to review the business planning process, including the setting of priorities and targets after reviewing the mid-year and third quarter performance against the 2015/16 Departmental Service Delivery and Budget Implementation Plan. Business planning links back to priority needs and master planning, and essentially informed the detail operating budget appropriations and three-year capital programme.

2.1.3. Financial Modelling and Key Planning Drivers

As part of the compilation of the 2016/17 MTREF, extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2016/17 MTREF:

- Municipality growth
- Policy priorities and strategic objectives
- Asset maintenance
- Economic climate and trends (i.e inflation, household debt, migration patterns)
- Performance trends
- The approved 2014/15 adjustments budget and performance against the SDBIP
- Cash Flow Management Strategy
- Debtor payment level
- The need for tariff increases versus the ability of the community to pay for services;
- Improved and sustainable service delivery

In addition to the above, the strategic guidance given in National Treasury's MFMA Circulars 78 and 79 has been taken into consideration in the planning and prioritisation process.

2.2. Overview of alignment of annual budget with IDP

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realized through a credible integrated developmental planning process.

Municipalities in South Africa need to utilise integrated development planning as a method to plan future development in their areas and so find the best solutions to achieve sound long-term development goals. A municipal IDP provides a five year strategic programme of action aimed at setting short, medium and long term strategic and budget priorities to create a development platform, which correlates with the term of office of the political incumbents. The plan aligns the resources and the capacity of a municipality to its overall development aims and guides the municipal budget. An IDP is therefore a key instrument which municipalities use to provide vision, leadership and direction to all those that have a role to play in the development of a municipal area. The IDP enables municipalities to make the best use of scarce resources and speed up service delivery.

Integrated developmental planning in the South African context is amongst others, an approach to planning aimed at involving the municipality and the community to jointly find the best solutions towards sustainable development. Furthermore, integrated development planning provides a strategic environment for managing and guiding all planning, development and decision making in the municipality.

It is important that the IDP developed by municipalities correlate with National and Provincial intent. It must aim to co-ordinate the work of local and other spheres of government in a coherent plan to improve the quality of life for all the people living in that area. Applied to the Municipality, issues of national and provincial importance should be reflected in the IDP of the municipality. A clear understanding of such intent is therefore imperative to ensure that the Municipality strategically complies with the key national and provincial priorities.

The aim of this revision cycle was to develop and coordinate a coherent plan to improve the quality of life for all the people living in the area, also reflecting issues of national and provincial importance. One of the key objectives is therefore to ensure that there exists alignment between national and provincial priorities, policies and strategies and the Municipality response to these requirements.

The national and provincial priorities, policies and strategies of importance include amongst others:

- Green Paper on National Strategic Planning of 2009;
- Government Programme of Action;
- Development Facilitation Act of 1995;
- Provincial Growth and Development Strategy (GGDS);
- National and Provincial spatial development perspectives;
- Relevant sector plans such as transportation, legislation and policy;
- National Key Performance Indicators (NKPIs);
- Accelerated and Shared Growth Initiative (ASGISA);

- National 2014 Vision;
- National Spatial Development Perspective (NSDP) and
- The National Priority Outcomes.

The Constitution requires local government to relate its management, budgeting and planning functions to its objectives. This gives a clear indication of the intended purposes of municipal integrated development planning. Legislation stipulates clearly that a municipality must not only give effect to its IDP, but must also conduct its affairs in a manner which is consistent with its IDP. The following table highlights the IDP's five strategic objectives for the 2016/17 MTREF and further planning refinements that have directly informed the compilation of the budget.

A copy of the municipal draft IDP for 2016/2017 financial year is attached as **ANNEXURE B.**

2.3. Overview of budget related-policies

The Municipality budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

The following Budget Related Policies are in the reviewal process and will be attached on the final approved budget.

- Budget policy.
- Virement policy
- Credit Control Policy.
- Cash and Investment Management Policy.
- Car Allowance Policy.
- Subsistence and Travel Policy.
- Recruitment Policy.
- Inventory management policy.
- Asset management policy

2.4. Overview of budget assumptions

Industry-related rates are used as a baseline for raising estimates for all goods and services to be procured.
The budget takes into consideration national headline inflation estimates and trends that emerged while implementing the SDBIP in the outgoing financial year.

2.5. Overview of budget funding

The projected year-end balance for cash and cash equivalents for 30 June 2015 has been taken into account. The anticipated increase in revenue from municipal tariffs and improving collection rate, estimated at 70 per cent for the first budget year, justifies the anticipated increase in own revenue. Additional revenue is anticipated from property rates because of the new valuation roll that was done in the current financial year and identifies new properties in the municipal areas.

Only gazetted grants and transfers from national government, totalling R287M, were factored into the funding envelope. This is to ensure that the budget is based on realistically anticipated revenue.

The projected deficit before recognized capital transfers and depreciation offsets represents a non-cash deficit made up of depreciation charges.

2.6. Expenditure on allocations and grant programmes

Specific purpose transfers received by the municipality are allocated to capital projects implemented by the municipality in accordance with grant conditions. The other grants, including LGES, are allocated to operational programmes, such as the provision of free basic services, and operating costs.

2.7. Allocations of grants made by the municipality

The municipality makes no transfers in the form of grants to other institutions.

2.8. Councillors and board member allowances and employee benefits

Employees costs of councillors and officials are budgeted for at a global increase of 7 per cent as confirmed increment rates are not yet available. This is based on a weighting of headline inflation estimates and indications from negotiations going on at the bargaining chamber. The actual increment is 7 per cent but on SA22 it's shows 14 per cent due to budgeted vacant positions.

2.9. Monthly targets for revenue, expenditure and cash flow

The MBRR SA25 to SA30 is attached.

2.10. Contracts having future budgetary implications

In terms of the Municipality Supply Chain Management Policy, no contracts are awarded beyond the medium-term revenue and expenditure framework (three years). In ensuring adherence to this contractual time frame limitation, all reports submitted to either the Bid Evaluation and Adjudication Committees must obtain formal financial comments from the Financial Management Division of the Treasury Department.

2.11. Capital expenditure details

The following table provides a breakdown of budgeted capital expenditure by vote:

Table 8 2015/16 Medium-term capital budget per vote

Capital Expenditure - Standard											
Governance and administration		3 295	14 384	9 518	21 650	35 968	35 968	35 968	26 105	16 160	11 460
Executive and council				2	150	80	80	80	100	100	100
Budget and treasury office											
Corporate services		3 295	14 384	9 516	21 500	35 888	35 888	35 888	26 005	16 060	11 360
Community and public safety		4 590	5 625	19 144	46 277	44 115	44 115	44 115	32 036	35 522	18 000
Community and social services		2 961	3 094	9 361	33 947	27 320	27 320	27 320	24 036	32 522	15 000
Sport and recreation		1 629	2 531	9 783	12 330	16 795	16 795	16 795	8 000	3 000	3 000
Public safety											
Housing											
Health											
Economic and environmental services		32 868	50 817	59 823	48 300	40 522	40 522	40 522	40 700	122 965	80 385
Planning and development		7 281	4 543	778	3 000	1 000	1 000	1 000	3 600	–	–
Road transport		25 588	46 274	59 045	45 300	39 522	39 522	39 522	37 100	122 965	80 385
Environmental protection											
Trading services		–	–	–	19 631	18 631	18 631	18 631	12 400	24 300	16 000
Electricity					19 631	18 631	18 631	18 631	12 400	24 300	16 000
Water											
Waste water management											
Waste management											
Other											
Total Capital Expenditure - Standard	3	40 753	70 826	88 485	135 858	139 236	139 236	139 236	111 241	198 946	125 845

Transport and roads receives the highest allocation of R37,1 million in 2016/17 which equates to 33,35 per cent of the total capital budget. Electricity infrastructure is at 11.14 per cent.

Further detail relating to asset classes and proposed capital expenditure is contained in Table A9 (Asset Management) . In addition to the MBRR Table A9, MBRR Tables SA34a, b, c provides a detailed breakdown of the capital programme relating to new asset construction, capital asset renewal as well as operational repairs and maintenance by asset class

2.12. Legislation compliance status

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

1. In year reporting
   Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Executive Mayor (within 10 working days) has progressively improved and includes monthly published financial performance on the Municipality website.

2. Internship programme
   The Municipality is participating in the Municipal Financial Management Internship programme and has employed 3 interns undergoing training in various divisions of the Financial Services Department from 1 January 2013.

3. Budget and Treasury Office
   The Budget and Treasury Office has been established in accordance with the MFMA.

4. Audit Committee

The Municipality have established its own Audit Committee.

5. Service Delivery and Implementation Plan
   The detail SDBIP document is at a draft stage and will be finalised and approved by the mayor.

6. Annual Report
   Annual report is compiled in terms of the MFMA and National Treasury requirements.

2.13.OTHER SUPPORTING DOCUMENTATION

Supporting details to budget are contained in supporting tables SA1 to SA37.

The tariffs structure for 2016/2017 financial year is attached **(Annexure A).**

2.14. Draft budgets of municipal entities attached to the draft budget

Greater Giyani municipality does not have an entity**.**

2.15. MUNICIPAL MANAGER'S QUALITY CERTIFICATION

To: Provincial Treasury, Limpopo

National Treasury, South Africa

QUALITY CERTIFICATE ON THE DRAFT MTREF BUDGET

I, **MADIDIMALO CHRISTOPHER CHAAMANO**, acting municipal manager of GREATER GIYANI MUNICIPALITY, hereby certify that the draft budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act (Act No 56 of 2003) and the regulations made under the Act, and the draft budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

______________________ ______________________

M C CHAAMANO **Date**

Municipal Manager:

Greater Giyani Municipality

LIM 331